ORIGINAL



RYLEY CARLOCK & APPLEWHITE 1 AZ CORP COMMISSION One North Central Avenue, Suite 1200 DOCKET CONTROL 2 Phoenix, AZ 85004-4417 Telephone: 602-440-4800 2017 MAY 17 P 4: 21 602-257-9582 3 4 Sheryl A. Sweeney (No. 009863) ssweeney@rcalaw.com Albert H. Acken (No. 021645) 5 aacken@rcalaw.com Arizona Corporation Commission Samuel L. Lofland (No. 026653) 6 DOCKETED slofland@rcalaw.com Attorneys for Electrical District Number Six, Pinal 7 County, Arizona; Electrical District Number Seven MAY 1 7 2017 8 of the County of Maricopa, State of Arizona; Aguila Irrigation District; Tonopah Irrigation District; DOCKETED BY Harquahala Valley Power District; and Maricopa 9 GIL County Municipal Water Conservation District Number One 10 BEFORE THE ARIZONA CORPORATION COMMISSION 11 12 **COMMISSIONERS** TOM FORESE, Chairman 13 **BOB BURNS BOYD DUNN** 14 DOUG LITTLE ANDY TOBIN 15 IN THE MATTER OF THE DOCKET NO. E-01345A-16-0036 16 APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR A HEARING 17 TO DETERMINE THE FAIR VALUE OF THE UTILITY PROPERTY OF THE 18 COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND 19 REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE 20 SCHEDULÉS DESIGNED TO DEVELOP SUCH RETURN 21 IN THE MATTER OF FUEL AND DOCKET NO. E-1345A-16-0123 22 PURCHASED POWER PROCUREMENT **AUDITS FOR ARIZONA PUBLIC CLOSING BRIEF IN OPPOSITION** 23 SERVICE COMPANY. TO NON-UNANIMOUS SETTLEMENT AGREEMENT 24 25 Electrical District Number Six, Pinal County, Arizona ("ED6"); Electrical 26 District Number Seven of the County of Maricopa, State of Arizona ("ED7"); Aguila 27 Irrigation District ("AID"); Tonopah Irrigation District ("TID"); Harquahala Valley

Power District ("HVPD"); and Maricopa County Municipal Water Conservation District Number One ("MWD") (hereinafter collectively referred to as the "Districts") respectfully request the Commission deny the proposed non-unanimous settlement agreement.

It was APS's burden to show that the non-unanimous settlement was in the public interest under A.R.S. § 40-250. What does the evidence show?

- The settlement is a great deal for APS, its shareholders, and EFCA.¹
- Farmers will be squeezed by ever-increasing rates and the pending closure of the Navajo Generating Station.²

Although it is understandable that few, if any, parties want to endure a full evidentiary hearing on the merits, a settlement must do more than make life easier for the lawyers involved to meet the public interest standard. As explained herein, the proposed non-unanimous settlement is the flawed result of a flawed process. Under its terms, ratepayers will pay hundreds of millions of dollars to provide a windfall to APS and to resolve APS's battles with EFCA. Meanwhile, the Districts' farmers are losing options for affordable power.

The Settlement Process Benefitted APS And EFCA At The Expense Of I. Ratepayers.

There is no question that the Proposed Settlement Agreement (Ex. APS-29) is a great deal for APS, its executives, and its shareholders. APS maintains its current unbalanced debt to equity ratio, receives a 10.0% rate of return on equity, and a fair value increment of 0.8%. See Ex. APS-29, Section V. In addition, the settlement resolves APS's disputes with EFCA while authorizing time-of-use rates that will be

28

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

See, e.g., Proposed Settlement Agreement, APS-29; Direct Testimony of David Tenney in Support of Settlement Agreement, RUCO-6, 9:6-13; Testimony in Support of the Settlement Agreement of Elijah O. Abinah, S-13, 19:24-20:2, 20:17-26; Direct Testimony of Gary Yaquinto, AIC-5, 3:15-22.

Testimony of Jim Downing, Tr. at 564:17-565:4; 581:3-13.

punishing for working families. SWEEP-3, 2:41-43. Staff APS receives these benefits without having to show why any increase is needed.

Under the terms of the Proposed Settlement Agreement, APS' ratepayers would pay for the benefits that accrue to APS and EFCA. The Districts respectfully submit that the battles between APS and EFCA should not be settled at the ratepayers' expense.

II. Non-Unanimous Settlements Must Be Subjected To Thorough Scrutiny.

Advocates for the non-unanimous settlement argued that settlements provide a greater public good than a litigated process. *See, e.g.*, Direct Testimony of Gary Yaquinto, AIC-5, 3:1-11. Why is that so? A non-unanimous settlement, reached behind closed doors among parties with a wide-disparity of bargaining power, is not inherently superior to an open, public process that requires the applicant to actually prove that it needs more money from its captive ratepayers. *See, e.g.*, Stefan H. Kreiger, *Problems for Captive Ratepayers in Nonunanimous Settlements of Public Utility Rate Cases*, YALE J. ON REG., Vol. 12:257, 303, 306, 316, 320 (1995). Of particular relevance to process used in this case:

Participation of the commission staff in the nonunanimous agreement may accentuate the power imbalance. The staff, as an arm of the commission, wields significant power. Indeed, if the staff allies itself with the utility, a bandwagon effect may be created, swaying other parties to join the agreement, albeit reluctantly.

Id. at 307-308. Here, the parties with the least bargaining power were shut out of the settlement process and the settlement itself. *See, e.g.,* Tr. at 980:24-983:13.

Despite efforts to avoid the obvious, the record shows that APS held far more bargaining power than many other participants. *See, e.g.,* Tr. at 964:4-7. In light of this disparity, what measures were used to protect the interests of all participants in the settlement process? A neutral third party facilitator could have served this role, but none was used. Tr. at 1276:11-17. Ultimately, the only evidence in support of the settlement process provided by APS and the settlement's supporters was that all parties had the opportunity to speak at the formal, large group settlement meetings. *See, e.g.,* 185:4-7.

Is this the best that we can do? Give intervenors a public comment slip, allow them to voice objection to the process, and then move forward with a predetermined outcome anyway?

The Districts sought to introduce evidence showing the settlement process was flawed. Parties with the most to gain through settlement financially (APS and EFCA) and reputationally (RUCO and Staff) all raised meritless Rule 408 objections to the introduction of this evidence. *See, e.g.*, 964:11-968:1; 1285:20-23. Rule 408 prohibits the use of settlement discussions "to prove or disprove the validity or amount of a disputed claim or to impeach by a prior inconsistent statement or a contradiction." ARIZ. R. EVID. 408. The purpose of Rule 408 is to protect a party who makes a good faith offer in settlement, so that offer cannot be used against it in the event settlement discussions fail. *Catullo v. Metzner*, 834 F.2d 1075, 1079 (1st Circ. 1987). Let the record be clear. The Districts were not attempting to use RUCO's, Staff's, and EFCA's statements in the settlement discussions to undercut their original positions that no rate increase was warranted.

Rule 408 "does not, however, prohibit evidence of a compromise offered for another reason." *Murray v. Murray*, 239 Ariz. 174, 178 (Ct. App. 2016). Evidence regarding the settlement process must be allowed in an evidentiary hearing that is being held solely for the purpose of evaluating whether the settlement is in the public interest. *See In re MSTG, Inc.*, 675 F.3d 1337, 1345 (D.C. Cir. 2012) ("settlement negotiation evidence would be admissible where the settlement itself or its interpretation is at issue...").

Moreover, this misapplication of Rule 408 makes a mockery of the process. The point of the evidentiary hearing was to determine whether APS could show the settlement is in the public interest. Here, parties advocating for the settlement introduced evidence regarding the settlement process, but objected to evidence that would have shown the settlement process was not as fair and open as they claimed it to

be. Rule 408 does not create a "settlement privilege" that allows settlement proponents to introduce evidence that supports their position but to exclude contradictory evidence. Ultimately, it was prejudicial error to exclude evidence of the settlement process's many flaws. See Catullo, 834 F.2d at 1079. After all, how can the Commission determine if a non-unanimous settlement is in the public interest if the settlement process itself is shielded from any meaningful scrutiny?

This non-unanimous settlement process, which left out parties with less bargaining power, resulted in an unequal settlement that is not in the public interest. Rather than pretend this was a settlement negotiation among equals, the settlement process should have included steps to address APS's outsized power and recognize the inherent structural inequality among the parties. Instead, there was a refusal to admit what everyone knows and no concrete measures were put in place to protect the interests of those with little bargaining power. Tr. at 1276:11-17. As a result, the settlement process failed to provide for a meaningful opportunity for all, and APS cannot meet its burden that the non-unanimous settlement agreement is in the public's interest.

III. Farmers Cannot Afford APS's Rising Rates But Will Soon Lose An Alternative Source Of Economical Power.

The Districts predominately serve agricultural-related loads, and the Districts' customers need cost-effective electric rates to pump their wells. The Districts are wholesale customers under contracts that index their contractual rate to the E-34 retail rate - increasing as rapidly as E-34 increases. The evidence showed that APS' everrising rates are unaffordable for farmers. Tr. 581:7-13. Today, the Districts have options because they can procure cost-effective power from Navajo Generating Station. *Id.* But what can they do when Navajo power is no longer available? If the proposed settlement is approved, APS power will not be an economic alternative.

CONCLUSION

| Settlement proponents argue that a closed-door, non-unanimous settlement is in |
|---|
| the public interest. The Districts respectfully disagree. In this case, the public's interest |
| would be best served by a fair, open, and impartial hearing before a neutral arbiter. The |
| Districts respectfully request that the Commission deny the proposed, non-unanimous |
| settlement so that an open, fair evidentiary hearing can be held to fully vet APS's |
| application. |

RESPECTFULLY SUBMITTED this 17th day of May, 2017.

RYLEY CARLOCK & APPLEWHITE

By:

Sheryl A. Sweeney Albert H. Acken Samuel L. Lofland

One N. Central Avenue, Suite 1200

Phoenix, AZ 85004-4417

Attorneys for Electrical District Number Six, Pinal County, Arizona; Electrical District Number Seven of the County of Maricopa, State of Arizona; Aguila Irrigation District; Tonopah Írrigation District; Harquahala Valley Power District; and Maricopa County Municipal Water Conservation District Number One E-mail: ssweeney@rcalaw.com;

aacken@rcalaw.com; slofland@rcalaw.com

10 11

1

2

3

4

5

6

7

8

9

12

13

14

15

16

17

18

19 **ORIGINAL** and 13 COPIES of the foregoing filed this 17th day

20 of May, 2017, with:

21 Docket Control

Arizona Corporation Commission

22 1200 West Washington Phoenix, Arizona 85007

23

24

COPY of the foregoing sent via Email this 17th day of May, 2017,

25

26

27

Andy Kvesic

ARIZONA CORPORATION COMMISSION

Director-Legal Division Phoenix, Arizona 85007 LegalDiv@azcc.gov

| 1 | utildivservicebyemail@azcc.gov |
|----|--|
| 2 | MScott@azcc.gov CHains@azcc.gov |
| 3 | WVanCleve@azcc.gov TFord@azcc.gov |
| 4 | EVanEpps@azcc.gov CFitzsimmons@azcc.gov |
| | KChristine@azcc.gov |
| 5 | EAbinah@azcc.gov |
| 6 | Thomas Jernigan FEDERAL EXECUTIVE AGENCIES |
| 7 | U.S. Airforce Utility Law Field Support Center Tyndall Air Force base Florida 32403 |
| 8 | thomas.jernigan.3@us.af.mil |
| 9 | ebony.payton.crt@us.af.mil andrew.unisicker@us.af.mil |
| 10 | lanny.zieman.1@us.af.mil natalie.cepak.2@us.af.mil |
| 11 | Richard Gayer 526 W. Wilshire Dr. |
| 12 | Phoenix Arizona 85003 |
| 13 | rgayer@cox.net |
| 14 | Thomas A Loquvam PINNACLE WEST CAPITOL CORPORATION 400 N. 5Th St, MS 8695 |
| 15 | Phoenix, Arizona 85004 |
| 16 | Thomas.Loquvam@pinnaclewest.com Thomas.Mumaw@pinnaclewest.com |
| 17 | Melissa.Krueger@pinnaclewest.com Amanda.Ho@pinnaclewest.com |
| 18 | <u>Debra.Orr@aps.com</u> <u>prefo@swlaw.com</u> |
| 19 | Timothy M. Hogan |
| 20 | ARIZONA CENTER FOR LAW IN THE PUBLIC INTEREST 514 W. Roosevelt Street |
| 21 | Phoenix, AZ 85003 thogan@aclpi.org |
| | ken.wilson@westernresources.org |
| 22 | schlegelj@aol.com ezuckerman@swenergy.org |
| 23 | bbaatz@aceee.org briana@votesolar.org |
| 24 | cosuala@earthjustice.org |
| 25 | dbender@earthjustice.org cfitzgerrell@earthjustice.org |
| 26 | onegonon@curunustico.org |
| 27 | |
| | |

| 1 | Timothy Sabo |
|--------|--|
| ^ | SNELL & WILMER, LLP |
| 2 | One Arizona Center Phoenix Arizona 85004 |
| 3 | tsabo@swlaw.com |
| 3 | ihoward@swlaw.com |
| 4 | docket@swlaw.com |
| 4 | pwalker@conservamerica.org |
| 5 | pwarker (a, conservamenca.org |
| 5 | Cynthia Zwick |
| 6 | ARIZONA COMMUNITY ACTION ASSOCIATION |
| v | 2700 N. Third St 3040 |
| 7 | Phoenix Arizona 85004 |
| č: | czwick@azcaa.org |
| 8 | khengehold@azcaa.org |
| | kilengeriotu@azeaa.org |
| 9 | Jay I. Moyes |
| | MOYES SELLERS & HENDRICKS, LTD |
| 10 | 1850 N. Central Ave 1100 |
| | Phoenix Arizona 85004 |
| 11 | JasonMoyes@law-msh.com |
| 12 | jimoyes@law-msh.com |
| 12 | jim@harcuvar.com |
| 13 | Table 1 and 1 and 1 and 1 and 1 |
| 13 | Michael Patten |
| 14 | SNELL & WILMER, LLP |
| K.T. | One Arizona Center |
| 15 | 400 East Van Buren Street |
| - | Phoenix Arizona 85004 |
| 16 | mpatten@swlaw.com |
| 00.00 | jhoward@swlaw.com docket@swlaw.com |
| 17 | BCarroll@tep.com |
| | <u>Bearronactep.com</u> |
| 18 | Dwight Nodes |
| | ARIZONA CORPORATION COMMISSION |
| 19 | 1200 W. Washington |
| 20 | Phoenix Arizona 85007-2927 |
| 20 | HearingDivision@azcc.gov |
| 21 | |
| -1 | Giancarlo Estrada |
| 22 | KAMPER ESTRADA, LLP |
| | 3030 N. 3rd Street, Suite 770 |
| 23 | Phoenix Arizona 85012 |
| | gestrada@law.phx.com |
| 24 | kfox@kfwlaw.com kcrandall@eq-research.com |
| 000007 | Kerandan(w,eq-research.com |
| 25 | Meghan H. Grabel |
| | OSBORN MALADON, PA |
| 26 | 2929 N. Central Avenue Suite 2100 |
| ,, | Phoenix Arizona 85012 |
| 27 | mgrabel@omlaw.com |
| 28 | gyaquinto@arizonaic.org |
| .0 | |

| 1 | Scott S. Wakefield HIENTON & CURRY, PLLC |
|----|---|
| 2 | 5045 N 12th Street, Suite 110 Phoenix Arizona 85014-3302 |
| 3 | swakefield@hclawgroup.com mlougee@hclawgroup.com |
| 4 | Stephen.chriss@wal-mart.com Greg.tillman@walmart.com |
| 5 | chris.hendrix@wal-mart.com |
| 6 | Garry Hays LAW OFFICES OF GARRY D. HAYS, PC |
| 7 | 2198 East Camelback Road, Suite 305 Phoenix Arizona 85016 |
| 8 | ghays@lawgdh.com |
| 9 | Patrick J. Black FENNEMORE CRAIG, P.C. |
| 10 | 2394 E. Camelback Rd, Ste 600 Phoenix Arizona 85016 |
| 11 | pblack@fclaw.com |
| 12 | khiggins@energystrat.com Tom Harris |
| 13 | ARIZONA SOLAR ENERGY INDUSTRIES ASSOCIATION |
| 14 | 2122 W. Lone Cactus Dr. Suite 2 Phoenix Arizona 85027 Tom Harris Aris ELA organismos |
| 15 | Tom.Harris@AriSEIA.org |
| 16 | Craig A. Marks CRAIG A. MARKS, PLC 10645 N. Tatum Blvd. Suite 200-676 |
| 17 | Phoenix Arizona 85028 Craig.Marks@azbar.org |
| 18 | Pat.Quinn47474@gmail.com |
| 19 | Ann-Marie Anderson WRIGHT WELKER & PAUOLE, PLC |
| 20 | 10429 South 51st Street, Suite 285 Phoenix Arizona 85044 |
| 21 | aanderson@wwpfirm.com sjennings@aarp.org |
| 22 | aallen@wwpfirm.com john@johncoffman.net |
| 23 | Dennis Fitzgibbons |
| 24 | FITZGIBBONS LAW OFFICES, PLC P.O. Box 11208 |
| 25 | Casa Grande Arizona 85230 denis@fitzgibbonslaw.com |
| 26 | Court S. Rich |
| 27 | ROSE LAW GROUP, PC 7144 E. Stetson Drive, Suite 300 |
| 28 | water to constitutional statements and the statements of the statement of |

| 1 | Scottsdale Arizona 85251 |
|---|--|
| 2 | crich@roselawgroup.com hslaughter@roselawgroup.com |
| 3 | cledford@mcdonaldcarano.com |
| | Thomas Stewart |
| 4 | GRANITE CREEK POWER & GAS/GRANITE CREEK FARMS 5316 East Voltaire Avenue |
| 5 | Scottsdale Arizona 85254-3643 tom@gcfaz.com |
| 6 | |
| 7 | Greg Eisert SUN CITY HOME OWNERS ASSOCIATION 10401 W. Coggins Drive |
| 8 | Sun City Arizona 85351 gregeisert@gmail.com |
| 9 | steven.puck@cox.net |
| 10 | Albert E. Gervenack SUN CITY WEST PROPERTY OWNERS & |
| 11 | RESIDENTS ASSOCIATION 13815 Camino Del Sol |
| 12 | Sun City Arizona 85372 al.gervenack@porascw.org |
| 13 | rob.robbins@porascw.org Bob.miller@porascw.org |
| 14 | Patricia C. Ferre |
| 15 | P.O. Box 433 |
| Payson, Arizona 85547 pFerreact@mac.com | |
| 17 | Lawrence Robertson, Jr. 210 Continental Road, Suite 216A |
| 18 | Green Valley, Arizona 85622 tubaclawyer@aol.com |
| 19 | |
| 20 | Charles Wesselhoft Pima County Attorney's Office 32 North Stone Avenue, Suite 2100 |
| 21 | Tucson, Arizona 85701 Charles. Wesselhoft@pcao.pima.gov |
| 22 | 28-60s (a)00-4 (b) 1/2 |
| 23 | Warren Woodward 55 Ross Circle |
| 24 | Sedona Arizona 86336 w6345789@yahoo.com |
| 25 | Robert Pickels, Jr. |
| 26 | Sedona City Attorney's Office 102 Roadrunner Drive Sedona Arizona 86336 |
| 27 | Sedona Arizona 86336 rpickels@sedonaaz.gov |
| 28 | |

| 1 | COPY sent via U.S. Mail this 17 th day of May, 2017, to: |
|----|--|
| 2 | 5274 77 152 55 201 140 150 150 15 |
| 3 | Matthew Price JENNER & BLOCK |
| 4 | 1099 New York Avenue, NW, Suite 900 Washington, DC 20001-4412 |
| 5 | Kurt Boehm |
| 6 | BOEHM, KURTZ & LOWRY 36 E. Seventh St. Suite 1510 Cincinnati Ohio 45202 |
| 7 | serviciti di si, firi seli de |
| 8 | Nicholas J. Enoch LUBIN & ENOCH, PC 349 N. Fourth Ave. |
| 9 | Phoenix Arizona 85003 |
| 10 | Greg Patterson MUNGER CHADWICK |
| 11 | 916 W. Adams Suite 3 Phoenix Arizona 85007 |
| 12 | 20 0 5 60 M |
| 13 | Daniel Pozefsky RUCO |
| 14 | 1110 West Washington, Suite 220 Phoenix Arizona 85007 |
| 15 | Anthony Wanger IO DATA CENTERS, LLC |
| 16 | 615 N. 48th St Phoenix Arizona 85008 |
| 17 | C. Controller State and American and American D |
| 18 | John Moore, Jr. MOORE BENHAM & BEAVER, LC 7321 N. 16 th Street |
| 19 | Phoenix Arizona 85020 |
| 20 | Mary O'Grady OSBORN MALEDON, P.A. |
| 21 | 2929 North Central avenue, 21st Floor Phoenix, Arizona 85012 |
| 22 | The processor and an extension of the process of the object of the objec |
| 23 | By: J. Kamen |
| 24 | |
| 25 | |
| 26 | |
| 27 | |